

**REPORT OF THE AUDIT OF THE  
HENRY COUNTY  
FISCAL COURT**

**For The Fiscal Year Ended  
June 30, 2012**



**ADAM H. EDELEN  
AUDITOR OF PUBLIC ACCOUNTS  
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**EXECUTIVE SUMMARY**  
**AUDIT EXAMINATION OF THE**  
**HENRY COUNTY FISCAL COURT**

**June 30, 2012**

The Auditor of Public Accounts has completed the audit of the Henry County Fiscal Court for fiscal year ended June 30, 2012.

We have issued unqualified opinions, based on our audit, on the governmental activities, each major fund, and aggregate remaining fund information financial statements of Henry County, Kentucky.

In accordance with OMB Circular A-133, we have issued an unqualified opinion on the compliance requirements that are applicable to Henry County's major federal program: Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii (CFDA 14.228).

**Financial Condition:**

The fiscal court had total net assets of \$9,535,272 as of June 30, 2012. The fiscal court had unrestricted net assets of \$2,008,530 in its governmental activities as of June 30, 2012, with total net assets of \$9,535,272. The fiscal court had total debt principal as of June 30, 2012 of \$374,409 with \$53,994 due within the next year.

**Report Comments:**

2012-01 The County Should Improve Controls Over Capital Assets  
2012-02 The County Has A Lack Of Segregation Of Duties Related To Receipts And Payroll

**Deposits:**

The fiscal court's deposits as of August 31, 2011, were exposed to custodial credit risk as follows:

- Uncollateralized and Uninsured \$364,648



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**ADAM H. EDELEN**  
**AUDITOR OF PUBLIC ACCOUNTS**

To the People of Kentucky

Honorable Steven L. Beshear, Governor  
Lori H. Flanery, Secretary  
Finance and Administration Cabinet  
Honorable John Logan Brent, Henry County Judge/Executive  
Members of the Henry County Fiscal Court

Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Henry County, Kentucky, as of and for the year ended June 30, 2012, which collectively comprise the County's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Henry County Fiscal Court. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1, Henry County, Kentucky, prepares its financial statements in accordance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Henry County, Kentucky, as of June 30, 2012, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with the basis of accounting described in Note 1.



To the People of Kentucky  
Honorable Steven L. Beshear, Governor  
Lori H. Flanery, Secretary  
Finance and Administration Cabinet  
Honorable John Logan Brent, Henry County Judge/Executive  
Members of the Henry County Fiscal Court

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Henry County, Kentucky's basic financial statements as a whole. The combining fund financial statements and budgetary comparison information are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments and Non-Profit Organizations, and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The combining fund financial statements and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining fund financial statements and schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole. The budgetary comparison information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

In accordance with Government Auditing Standards, we have also issued our report dated March 21, 2013 on our consideration of Henry County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Based on the results of our audit, we present the accompanying schedule of findings and questioned costs included herein, which discusses the following report comments:

2012-01 The County Should Improve Controls Over Capital Assets

2012-02 The County Has A Lack Of Segregation Of Duties Related To Receipts And Payroll

Respectfully submitted,



Adam H. Edelen  
Auditor of Public Accounts

March 21, 2013



HENRY COUNTY OFFICIALS

For The Year Ended June 30, 2012

**Fiscal Court Members:**

John Logan Brent	County Judge/Executive
Scott Bates	Magistrate
Jerry Beasley	Magistrate
David Brown	Magistrate
Michael Fisher	Magistrate
Roger Hartlage	Magistrate
Nick Hawkins	Magistrate

**Other Elected Officials:**

Virginia Harrod	County Attorney
Scot Southworth	Jailer
Juanita Lashley	County Clerk
Mary Lou Roberts	Circuit Court Clerk
Danny Cravens	Sheriff
Jason Scriber	Property Valuation Administrator
James Pollard	Coroner

**Appointed Personnel:**

Lori Parrish	County Treasurer
Peggy Bryant	Deputy Judge/Executive and Finance Officer

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**HENRY COUNTY**  
**STATEMENT OF NET ASSETS - MODIFIED CASH BASIS**

**June 30, 2012**



**HENRY COUNTY**  
**STATEMENT OF NET ASSETS - MODIFIED CASH BASIS**

**June 30, 2012**

	<b>Governmental Activities</b>
<b>ASSETS</b>	
Current Assets:	
Cash and Cash Equivalents	\$ 3,460,099
Total Current Assets	<u>3,460,099</u>
Noncurrent Assets:	
Capital Assets - Net of Accumulated Depreciation	
Land	767,465
Buildings	1,959,673
Equipment	567,540
Vehicles	501,850
Infrastructure	2,653,054
Total Noncurrent Assets	<u>6,449,582</u>
Total Assets	<u>9,909,681</u>
<b>LIABILITIES</b>	
Current Liabilities:	
Financing Obligations Payable	53,994
Total Current Liabilities	<u>53,994</u>
Noncurrent Liabilities:	
Financing Obligations Payable	320,415
Total Noncurrent Liabilities	<u>320,415</u>
Total Liabilities	<u>374,409</u>
<b>NET ASSETS</b>	
Invested in Capital Assets, Net of Related Debt	6,075,173
Restricted For:	
Protection to Persons and Property	46,273
Roads	1,405,296
Unrestricted	2,008,530
Total Net Assets	<u>\$ 9,535,272</u>

The accompanying notes are an integral part of the financial statements.

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**HENRY COUNTY**  
**STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**  
**For The Year Ended June 30, 2012**

**HENRY COUNTY**  
**STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2012**

		Program Revenues Received			
Functions/Programs Reporting Entity	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Primary Government:					
Governmental Activities:					
General Government	\$ 2,357,488	\$ 270,013	\$ 170,661	\$	
Protection to Persons and Property	1,208,574	636,399	72,017	35,830	
General Health and Sanitation	1,141,217		236,128	497,500	
Social Services	70,123				
Recreation and Culture	112,496	9,420		121,800	
Roads	1,202,305		1,629,715		
Interest on Long-Term Debt	17,460				
Capital Projects	92,693				
Total Primary Government	6,202,356	915,832	2,108,521	655,130	

**General Revenues:**

Taxes:  
Real Property Taxes  
Motor Vehicle Taxes  
Other Taxes  
Excess Fees  
Miscellaneous Revenues  
Unrestricted Investment Earnings

Total General Revenues  
Change in Net Assets  
Net Assets - Beginning (Restated)  
Net Assets - Ending

The accompanying notes are an integral part of the financial statements.



**HENRY COUNTY**  
**STATEMENT OF ACTIVITIES – MODIFIED CASH BASIS**  
**For The Year Ended June 30, 2012**  
**(Continued)**

<b>Net (Expenses) Revenues and Changes in Net Assets</b>	
<b>Primary Government</b>	
<b>Totals</b>	
\$	(1,916,814)
	(464,328)
	(407,589)
	(70,123)
	18,724
	427,410
	(17,460)
	(92,693)
	(2,522,873)
	775,796
	100,879
	323,832
	89,458
	997,331
	26,688
	2,313,984
	(208,889)
	9,744,161
\$	9,535,272

The accompanying notes are an integral part of the financial statements.

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**HENRY COUNTY**  
**BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**

**June 30, 2012**



**HENRY COUNTY**  
**BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**

**June 30, 2012**

	<b>General Fund</b>	<b>Road Fund</b>	<b>Non- Major Funds</b>	<b>Total Governmental Funds</b>
<b>ASSETS</b>				
Cash and Cash Equivalents	\$ 2,008,530	\$ 1,405,296	\$ 46,273	\$ 3,460,099
Investments				
Total Assets	<u>2,008,530</u>	<u>1,405,296</u>	<u>46,273</u>	<u>3,460,099</u>
<b>FUND BALANCES</b>				
<b>Restricted For:</b>				
Protection to Persons and Property			46,273	46,273
Roads		1,405,296		1,405,296
<b>Assigned To:</b>				
Recreation and Culture	6,911			6,911
Protection to Persons and Property	12,466			12,466
General Health and Sanitation	44,940			44,940
<b>Unassigned</b>	<u>1,944,213</u>			<u>1,944,213</u>
Total Fund Balances	<u>\$ 2,008,530</u>	<u>\$ 1,405,296</u>	<u>\$ 46,273</u>	<u>\$ 3,460,099</u>

**Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Assets:**

Total Fund Balances	\$ 3,460,099
Amounts Reported For Governmental Activities In The Statement	
Of Net Assets Are Different Because:	
Capital Assets Used in Governmental Activities Are Not Financial Resources	
And Therefore Are Not Reported in the Funds.	10,439,820
Accumulated Depreciation	(3,990,238)
Long-term debt is not due and payable in the current period and, therefore, is not reported in the funds.	
Financing Obligations	<u>(374,409)</u>
Net Assets Of Governmental Activities	<u>\$ 9,535,272</u>

The accompanying notes are an integral part of the financial statements.

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**HENRY COUNTY**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2012**





**HENRY COUNTY**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2012**

	<u>General Fund</u>	<u>Road Fund</u>	<u>Total Nonmajor Funds</u>	<u>Total Governmental Funds</u>
<b>REVENUES</b>				
Taxes	\$ 1,186,910	\$	\$ 60,046	\$ 1,246,956
Excess Fees	89,458			89,458
Licenses and Permits	241,806			241,806
Intergovernmental	818,610	1,629,714	497,500	2,945,824
Charges for Services	520,128			520,128
Miscellaneous	922,334	6,908		929,242
Interest	10,649	9,323	80	20,052
Total Revenues	<u>3,789,895</u>	<u>1,645,945</u>	<u>557,626</u>	<u>5,993,466</u>
<b>EXPENDITURES</b>				
General Government	1,483,536			1,483,536
Protection to Persons and Property	1,121,367		64,435	1,185,802
General Health and Sanitation	642,344		497,500	1,139,844
Social Services	57,154			57,154
Recreation and Culture	163,880			163,880
Roads		1,438,451		1,438,451
Debt Service	58,282	7,044		65,326
Capital Projects	92,693			92,693
Administration	849,881	178,574	62	1,028,517
Total Expenditures	<u>4,469,137</u>	<u>1,624,069</u>	<u>561,997</u>	<u>6,655,203</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(679,242)</u>	<u>21,876</u>	<u>(4,371)</u>	<u>(661,737)</u>
<b>Other Financing Sources (Uses)</b>				
Transfers Out	(831,425)	(179,600)		(1,011,025)
Transfers In	988,525		22,500	1,011,025
Total Other Financing Sources (Uses)	<u>157,100</u>	<u>(179,600)</u>	<u>22,500</u>	
Net Change in Fund Balances	(522,142)	(157,724)	18,129	(661,737)
Fund Balances - Beginning	<u>2,530,672</u>	<u>1,563,020</u>	<u>28,144</u>	<u>4,121,836</u>
Fund Balances - Ending	<u>\$ 2,008,530</u>	<u>\$ 1,405,296</u>	<u>\$ 46,273</u>	<u>\$ 3,460,099</u>

The accompanying notes are an integral part of the financial statements.

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**HENRY COUNTY  
RECONCILIATION OF THE STATEMENT OF REVENUES,  
EXPENDITURES, AND CHANGES IN FUND BALANCES OF  
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2012**



**HENRY COUNTY**  
**RECONCILIATION OF THE STATEMENT OF REVENUES,**  
**EXPENDITURES, AND CHANGES IN FUND BALANCES OF**  
**GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2012**

Net Change in Fund Balances - Total Governmental Funds	\$ (661,737)
--------------------------------------------------------	--------------

Amounts Reported for Governmental Activities in the Statement of Activities Are Different Because Governmental Funds Report Capital Outlays as Expenditures. However, in the Statement of Activities, the Cost of Those Assets Are Allocated Over Their Estimated Useful Lives and Reported as Depreciation Expense.

Capital Outlay	1,032,697
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Depreciation Expense	(601,940)
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Assets Disposed of Net Book Value	(25,775)
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The Issuance of Long-term Debt (e.g. Bonds, Financing Obligations) Provides Current Financial Resources to Governmental Funds, While Repayment of Principal on Long-term Debt Consumes the Current Financial Resources of Governmental Funds. These Transactions, However, Have no Effect on Net Assets.

Financing Obligation Proceeds

Bond Issuance

Lease and Bond Principal Payments Are Expensed in the Governmental Funds as a use of Current Financial Resources.

Financing Obligations Principal Amount	47,866
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Change in Net Assets of Governmental Activities	\$ <u>(208,889)</u>
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**INDEX FOR NOTES  
TO THE FINANCIAL STATEMENTS**

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**HENRY COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2012**

**Note 1. Summary of Significant Accounting Policies**

**A. Basis of Presentation**

The county presents its government-wide and fund financial statements in accordance with a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received and expenditures when paid. Notes receivable are recognized on the Statement of Net Assets, but notes receivable are not included and recognized on Balance Sheet - Governmental Funds. Property tax receivables, accounts payable, compensated absences, and donated assets are not reflected in the financial statements.

The State Local Finance Officer does not require the county to report capital assets and infrastructure; however the value of these assets is included in the Statement of Net Assets and the corresponding depreciation expense is included on the Statement of Activities.

**B. Reporting Entity**

The financial statements of Henry County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the Governmental Accounting Standards Board (GASB) Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14 and GASB 39, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Consequently, the reporting entity includes organizations that are legally separate from the primary government. Legally separate organizations are reported as component units if either the county is financially accountable or the organization's exclusion would cause the county's financial statements to be misleading or incomplete. Component units may be blended or discretely presented. Blended component units either provide their services exclusively or almost entirely to the primary government, or their governing bodies are substantively the same as the primary government. All other component units are discretely presented. The County has no component units.

**HENRY COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2012**  
**(Continued)**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**C. Henry County Elected Officials**

Kentucky law provides for election of the officials below from the geographic area constituting Henry County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices. These financial statements are not required to be included in the financial statements of Henry County, Kentucky.

- Circuit Court Clerk
- County Attorney
- Property Valuation Administrator
- County Clerk
- County Sheriff

**D. Government-wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its non-fiduciary component units. For the most part, the effect of interfund activities has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on sales, fees, and charges for support. Business-type revenues come mostly from fees charged to external parties for goods or services. Fiduciary funds are not included in these financial statements due to the unavailability of fiduciary funds to aid in the support of government programs.

The statement of net assets presents the reporting entity's non-fiduciary assets and liabilities, the difference between the two being reported as net assets. Net assets are reported in three categories: 1) invested in capital assets, net of related debt - consisting of capital assets, net of accumulated depreciation and reduced by outstanding balances for debt related to the acquisition, construction, or improvement of those assets; 2) restricted net assets - resulting from constraints placed on net assets by creditors, grantors, contributors, and other external parties, including those constraints imposed by law through constitutional provisions or enabling legislation; and 3) unrestricted net assets - those assets that do not meet the definition of restricted net assets or invested in capital assets.



**HENRY COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2012**  
**(Continued)**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**D. Government-wide and Fund Financial Statements (Continued)**

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; 2) operating grants and contributions; and 3) capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Internally dedicated resources such as taxes and unrestricted state funds are reported as general revenues.

Generally and except as otherwise provided by law, property taxes are assessed as of January 1, levied (mailed) November 1, due at discount November 30, due at face value December 31, delinquent January 1 following the assessment, and subject to sale ninety days following April 15.

Funds are characterized as either major or non-major. Major funds are those whose assets, liabilities, revenues, or expenditures/expenses are at least ten percent of the corresponding total (assets, liabilities, etc.) for all funds or type (governmental or proprietary) and whose total assets, liabilities, revenues, or expenditures/expenses are at least five percent of the corresponding total for all governmental and enterprise funds combined. The fiscal court may also designate any fund as major.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds. Major individual governmental funds and major enterprise funds are reported as separate columns in the financial statements.

**Governmental Funds**

The primary government reports the following major governmental funds:

**General Fund** - This is the primary operating fund of the fiscal court. It accounts for all financial resources of the general government, except where the Department for Local Government requires a separate fund or where management requires that a separate fund be used for some function.

**Road Fund** - This fund is for road and bridge construction and repair. The primary source of revenue for this fund is state payments for truck license distribution, municipal road aid, and transportation grants. The Department for Local Government requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

The primary government also has the following non-major funds: Emergency 911 Fund, and the Health Department Fund.

**Special Revenue Funds**

The Road Fund, Emergency 911 Fund, and Health Department Fund are presented as special revenue funds. Special revenue funds are to account for the proceeds of significant restricted and/or committed revenue sources and expenditures that are legally restricted or committed for specific purposes.

**HENRY COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2012**  
**(Continued)**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**E. Deposits and Investments**

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, certificates of deposit, and short-term investments with original maturities of three months or less from the date of acquisition.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

**F. Capital Assets**

Capital assets, which include land, land improvements, buildings, furniture and office equipment, building improvements, machinery, equipment, and infrastructure assets (roads and bridges) that have a useful life of more than one reporting period based on the government's capitalization policy, are reported in the applicable governmental or business-type activities of the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost when purchased or constructed.

Cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized. Land and Construction In Progress are not depreciated. Interest incurred during construction is not capitalized. Capital assets and infrastructure are depreciated using the straight-line method of depreciation over the estimated useful life of the asset.

	Capitalization Threshold	Useful Life (Years)
Land Improvements	\$ 12,500	10-60
Buildings and Improvements	\$ 25,000	10-75
Vehicles and Equipment	\$ 5,000	3-25
Infrastructure	\$ 20,000	10-25

**G. Long-term Obligations**

In the government-wide financial statements, long term debt and other long-term obligations are reported as liabilities in the applicable financial statements. The principal amount of bonds, notes and financing obligations are reported.

**HENRY COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2012**  
**(Continued)**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**G. Long-term Obligations (Continued)**

In the fund financial statements, governmental fund types recognize bond interest, as well as bond issuance costs when received or when paid, during the current period. The principal amount of the debt and interest are reported as expenditures. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures. Debt proceeds are reported as other financing sources.

**H. Fund Equity**

In the fund financial statements, the difference between the assets and liabilities of governmental funds is reported as fund balance. Fund balance is divided into non-spendable and spendable components, if applicable.

Non-spendable includes amounts that must be maintained intact legally or contractually.

Spendable include the following:

- Restricted-amounts constrained for a specific purpose by external parties, constitutional provisions, or enabling legislation.
- Committed-amounts constrained for a specific purpose by the county using its highest level of decision making authority.
- Assigned-for all governmental funds, other than general fund, any remaining positive amounts not classified as non-spendable, restricted, or committed. For the general fund, amounts constrained by intent to be used for a specified purpose by the County or the delegated county committee or official given authority to assign amounts.
- Unassigned-for the general fund, amounts not classified as non-spendable, restricted, committed or assigned. For all other governmental funds, amount expended in excess of resources that are non-spendable, restricted, committed or assigned.

For resources considered committed, the county issues an ordinance or resolution that can only be changed with another corresponding ordinance or resolution.

For resources considered assigned, the county has designated the County Judge/Executive to carry out the intent of the fiscal court.

It is the policy of the County to spend restricted resources first, when both restricted and unrestricted resources are available to spend on the activity. Once restricted resources are exhausted, then committed, assigned and unassigned resources will be spent in that order on the activity.

Encumbrances, although not reported on the balance sheet, are purchase orders that will be fulfilled in a subsequent fiscal period. Although the purchase order or contract creates a legal commitment, the fiscal court incurs no liability until performance has occurred on the part of the party with whom the fiscal court has entered into the arrangement. When a government intends to honor outstanding commitments in subsequent periods, such amounts are encumbered. Due to the modified cash basis of accounting, encumbrances can also include invoices for goods or services received at June 30, but not yet paid and not included as an accounts payable. Significant encumbrances at year end are reported by major funds and non-major funds in the aggregate and included with the commitments and contingencies note disclosure, if applicable.

**HENRY COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2012**  
**(Continued)**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**I. Budgetary Information**

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

**J. Related Organizations**

A related organization is an entity for which a primary government is not financially accountable. It does not impose will or have a financial benefit or burden relationship, even if the primary government appoints a voting majority of the related organization's governing board. Based on these criteria, the following are considered related organizations of Henry County Fiscal Court: The Henry County Library. The fiscal court's accountability for this organization; however, does not extend beyond making these appointments.

**Note 2. Deposits**

The primary government maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met.

**Custodial Credit Risk - Deposits**

Custodial credit risk is the risk that in the event of a depository institution failure, the government's deposits may not be returned. The government does not have a deposit policy for custodial credit risk, but rather follows the requirements of KRS 41.240 (4). On August 31, 2011, the government's bank balance was exposed to custodial credit risk because the bank did not adequately collateralize the government's deposits in accordance with the collateral security agreement.

- Uncollateralized and Uninsured                      \$364,648

**HENRY COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2012**  
**(Continued)**

**Note 3. Transfers**

The County had the following cash transfers:

	General Fund	Road Fund	Non-Major Fund	Total Transfers In
General Fund	\$ 157,100	\$ (179,600)	\$ 22,500	\$ 157,100
Total Transfers Out	<u>\$ 157,100</u>	<u>\$ (179,600)</u>	<u>\$ 22,500</u>	<u>\$ 157,100</u>

Reason for transfers: To move resources from the General Fund to the Funds that will expend them.

**Note 4. Capital Assets**

Capital asset activity for the year ended June 30, 2012 was as follows:

	Reporting Entity			
	Beginning Balance	Increases	Decreases	Ending Balance
<b>Primary Government:</b>				
<u>Governmental Activities:</u>				
Capital Assets Not Being Depreciated:				
Land and Land Improvements	\$ 646,782	\$ 35,000	\$	\$ 681,782
Construction In Progress		85,683		85,683
Total Capital Assets Not Being Depreciated	<u>646,782</u>	<u>120,683</u>		<u>767,465</u>
Capital Assets, Being Depreciated:				
Buildings	2,510,613	38,649		2,549,262
Equipment	1,005,340	87,413	(60,000)	1,032,753
Vehicles	1,545,443	25,114	(20,881)	1,549,676
Infrastructure	3,779,826	760,838		4,540,664
Total Capital Assets Being Depreciated	<u>8,841,222</u>	<u>912,014</u>	<u>(80,881)</u>	<u>9,672,355</u>
Less Accumulated Depreciation For:				
Buildings	(538,980)	(50,609)		(589,589)
Other Equipment	(455,475)	(48,138)	38,400	(465,213)
Vehicles and Equipment	(996,988)	(67,543)	16,705	(1,047,826)
Infrastructure	(1,451,960)	(435,650)		(1,887,610)
Total Accumulated Depreciation	<u>(3,443,403)</u>	<u>(601,940)</u>	<u>55,105</u>	<u>(3,990,238)</u>
Total Capital Assets, Being Depreciated, Net	<u>5,397,819</u>	<u>310,074</u>	<u>(25,776)</u>	<u>5,682,117</u>
Governmental Activities Capital Assets, Net	<u>\$ 6,044,601</u>	<u>\$ 430,757</u>	<u>\$ (25,776)</u>	<u>\$ 6,449,582</u>

**HENRY COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2012**  
**(Continued)**

**Note 4. Capital Assets (Continued)**

Depreciation expense was charged to functions of the primary government as follows:

Governmental Activities:

General Government	\$ 30,071
Protection to Persons and Property	39,197
General Health and Sanitation	1,373
Social Services	12,969
Recreation and Culture	22,265
Roads, Including Depreciation of General Infrastructure Assets	<u>496,065</u>
Total Depreciation Expense - Governmental Activities	<u>\$ 601,940</u>

**Note 5. Long-term Debt**

**A. Financial Obligation-Courthouse Annex**

On October 29, 1999 Henry County Fiscal Court entered into a financial obligation agreement with the Kentucky Association of Counties Leasing Trust (KACoLT) Program for the purchase of the Courthouse Annex county office building in the amount of \$375,000. The obligation (\$356,417) was refinanced on May 7, 2001, with the terms being changed to a variable interest rate on the unpaid principal, and with monthly payments due the 20<sup>th</sup> of each month. The obligation is to be paid in full on May 20, 2020. The principal balance was \$187,616 as of June 30, 2012. The following table shows the scheduled interest (based upon an interest rate of 4%) and principal amounts during the next five years and thereafter:

Fiscal Year Ending June 30	Governmental Activities	
	Scheduled Interest	Scheduled Principal
2013	\$ 7,679	\$ 18,994
2014	6,859	20,193
2015	5,984	21,468
2016	5,062	22,823
2017	4,074	24,264
2018-2020	<u>5,653</u>	<u>79,874</u>
Totals	<u>\$ 35,311</u>	<u>\$ 187,616</u>

**HENRY COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2012**  
**(Continued)**

**Note 5. Long-term Debt (Continued)**

**B. Financial Obligation-Track Loader**

On November 24, 2004, Henry County Fiscal Court entered in an agreement with the Kentucky Association of Counties Leasing Trust (KACoLT) Program for \$79,011. The purpose of the financing was for the purchase of a track loader. The term for this agreement was 10 years with the balance to be paid in full July 20, 2015. The principal balance was \$44,011 as of June 30, 2012. The following table shows the scheduled remaining interest and principal amounts due:

Fiscal Year Ending June 30	Governmental Activities	
	Scheduled Interest	Scheduled Principal
2013	\$ 1,607	\$ 10,000
2014	1,154	10,000
2015	700	10,000
2016	56	14,011
Totals	<u>\$ 3,517</u>	<u>\$ 44,011</u>

**C. Financial Obligation-Land Purchased**

On February 8, 2007, the Henry County Fiscal Court entered into an agreement with the Kentucky Association of Counties Leasing Trust (KACoLT) Program for \$302,782. The purpose of the financing was for the purchase of land for the building of a senior citizens center, a park and possibly a new health department building. The term for this agreement was 10 years with a variable interest rate based upon an interest rate swap, the balance is to be paid in full January 20, 2017. The principal balance was \$142,782 as of June 30, 2012. The following table shows the scheduled remaining interest and principal amounts due:

Fiscal Year Ending June 30	Governmental Activities	
	Scheduled Interest	Scheduled Principal
2013	\$ 5,904	\$ 25,000
2014	4,850	25,000
2015	3,714	30,000
2016	2,452	30,000
2017	978	32,782
Totals	<u>\$ 17,898</u>	<u>\$ 142,782</u>

**HENRY COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2012**  
**(Continued)**

**Note 5. Long-Term Debt (Continued)**

**D. Change In Long-Term Liabilities**

Long-term liability activity for the year ended June 30, 2012, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<u>Governmental Activities:</u>					
Financing Obligations	\$ 422,275	\$	\$ 47,866	\$ 374,409	\$ 53,994
Governmental Activities Long-term Liabilities	<u>\$ 422,275</u>	<u></u>	<u>\$ 47,866</u>	<u>\$ 374,409</u>	<u>\$ 53,994</u>

**Note 6. Employee Retirement System**

The fiscal court has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost sharing, multiple employer defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability and death benefits to plan members. Benefit contributions and provisions are established by statute.

Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. Nonhazardous covered employees who begin participation on or after September 1, 2008 are required to contribute 6 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 16.16 percent.

Hazardous covered employees are required to contribute 8 percent of their salary to the plan. Hazardous covered employees who begin participation on or after September 1, 2008 are required to contribute 9 percent of their salary to be allocated as follows: 8% will go to the member's account and 1% will go to the KRS insurance fund. The county's contribution rate for hazardous employees was 32.97 percent.

The county's contribution for FY 2010 was \$299,637, FY 2011 was \$366,629, and FY 2012 was \$348,335.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Nonhazardous employees who begin participation on or after September 1, 2008 must meet the rule of 87 (members age plus years of service credit must equal 87, and the member must be a minimum of 57 years of age) or the member is age 65, with a minimum of 60 months service credit.

Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55. For hazardous employees who begin participation on or after September 1, 2008 aspects of benefits include retirement after 25 years of service or the member is age 60, with a minimum of 60 months of service credit.



**HENRY COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2012**  
**(Continued)**

**Note 6. Employee Retirement System (Continued)**

CERS also provides post retirement health care coverage as follows:

For members participating prior to July 1, 2003, years of service and respective percentages of the maximum contribution are as follows:

<b>Years of Service</b>	<b>% paid by Insurance Fund</b>	<b>% Paid by Member through Payroll Deduction</b>
20 or more	100%	0%
15-19	75%	25%
10-14	50%	50%
4-9	25%	75%
Less than 4	0%	100%

As a result of House Bill 290 (2004 General Assembly), medical insurance benefits are calculated differently for members who began participation on or after July 1, 2003. Once members reach a minimum vesting period of ten years, non-hazardous employees whose participation began on or after July 1, 2003, earn ten dollars per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount.

Hazardous employees whose participation began on or after July 1, 2003, earn fifteen dollars per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount. Upon the death of a hazardous employee, such employee's spouse receives ten dollars per month for insurance benefits for each year of the deceased employee's hazardous service. This dollar amount is subject to adjustment annually based on the retiree cost of living adjustment, which is updated annually due to changes in the Consumer Price Index.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

**Note 7. Deferred Compensation**

In July 1999, the Henry County Fiscal Court voted to allow all eligible employees to participate in deferred compensation plans administered by The Kentucky Public Employees' Deferred Compensation Authority. The Kentucky Public Employees' Deferred Compensation Authority is authorized under KRS 18A.230 to 18A.275 to provide administration of tax sheltered supplemental retirement plans for all state, public school and university employees and employees of local political subdivisions that have elected to participate.

These deferred compensation plans permits all full time employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. Participation by eligible employees in the deferred compensation plans is voluntary.

Historical trend information showing The Kentucky Public Employees' Deferred Compensation Authority's progress in accumulating sufficient assets to pay benefits when due is presented in The Kentucky Public Employees' Deferred Compensation Authority's annual financial report. This report may be obtained by writing Kentucky Public Employees' Deferred Compensation Authority at 105 Sea Hero Road, Suite 1, Frankfort, KY 40601-8862, or by telephone at (502) 573-7925.

**HENRY COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2012**  
**(Continued)**

**Note 8. Change In Accounting Principle**

The county implemented a new accounting standard, Governmental Accounting Standards Board (GASB) Statement 54, Fund Balance Reporting and Governmental Fund Type Definitions which has altered the classifications of fund balance on the Balance Sheet-Governmental Funds. Additionally, certain funds previously reported as special revenue funds that no longer meet the definition as stated in GASB statement 54 have now been included in the General Fund.

As a result the beginning fund balance for the General Fund has been increased by \$105,532 for the addition of the Jail Fund, LGEA Fund, Federal Grant Fund, Solid Waste Fund and Fair Board Fund.

**Note 9. Restatement of Beginning Balances**

A restatement of the beginning Net Assets balance was required in the amount of \$124,149, for the payroll balance allocation that was done in FY 2011.

A restatement of the general fund beginning balance was required in the amount of 144,014, for the payroll balance allocation that was done in FY 2011.

A restatement of the road fund beginning balance was required in the amount of 15,219, for the payroll balance allocation that was done in FY 2011.

**Note 10. Payroll Account Balance**

The county's financial statements do not include the payroll account balance as of June 30, 2012 of \$67,688.

**HENRY COUNTY  
COMBINING BALANCE SHEET -  
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS  
Supplementary Information**

**June 30, 2012**



**HENRY COUNTY**  
**COMBINING BALANCE SHEET -**  
**NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**  
**Supplementary Information**

**June 30, 2012**

	<b>Emergency 911 Fund</b>	<b>Health Department Fund</b>	<b>Total Non-Major Governmental Funds</b>
<b>ASSETS</b>			
Cash and Cash Equivalents	\$ 46,273	\$	\$ 46,273
Total Assets	<u>46,273</u>		<u>46,273</u>
<b>FUND BALANCES</b>			
<b>Restricted For:</b>			
Protection to Persons and Property	<u>46,273</u>		<u>46,273</u>
Total Fund Balances	<u>\$ 46,273</u>		<u>\$ 46,273</u>

The accompanying notes are an integral part of the financial statements.

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**HENRY COUNTY**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**  
**Supplementary Information**

**For The Year Ended June 30, 2012**





**HENRY COUNTY**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**  
**Supplementary Information**

**For The Year Ended June 30, 2012**

	<b>Emergency 911 Fund</b>	<b>Health Department Fund</b>	<b>Total Non-Major Governmental Funds</b>
<b>REVENUES</b>			
Taxes			
Intergovernmental	\$ 60,046	\$	\$ 60,046
Miscellaneous		497,500	497,500
Interest	80		80
	<u>60,126</u>	<u>497,500</u>	<u>557,626</u>
<b>EXPENDITURES</b>			
Protection to Persons and Property	64,435		64,435
General Health and Sanitation		497,500	497,500
Administration	62		62
Total Expenditures	<u>64,497</u>	<u>497,500</u>	<u>561,997</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(4,371)</u>		<u>(4,371)</u>
<b>OTHER FINANCING SOURCES</b>			
Transfers In	<u>22,500</u>		<u>22,500</u>
Total Other Financing Sources	<u>22,500</u>		<u>22,500</u>
Net Change in Fund Balances	18,129		18,129
Fund Balances - Beginning	28,144		28,144
Fund Balances - Ending	<u>\$ 46,273</u>	<u>\$ 0</u>	<u>\$ 46,273</u>

The accompanying notes are an integral part of the financial statements.

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**HENRY COUNTY**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**



**HENRY COUNTY  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

**Fiscal Year Ended June 30, 2012**

Federal Grantor CFDA #	Program Title	Pass-Through Grantor's Number	Expenditures
<b><u>U.S. Department of Housing and Urban Development</u></b>			
<b><i>Passed-Through Kentucky Department for Local Government</i></b>			
14.228	Community Development Block Grants	09-011      **	\$      497,500
<b><i>Direct Program:</i></b>			
14.251	Economic Development Initiative-Special Project,	N/A	<u>103,298</u>
<b>Total U.S. Department of Housing and Urban Development</b>			<u><u>600,798</u></u>
<b><u>U.S. Department of Justice</u></b>			
<b><i>Direct Program:</i></b>			
16.710	Public Safety Partnership And Community Policing (	N/A	<u>37,947</u>
<b>Total U.S. Department of Justice</b>			<u><u>37,947</u></u>
<b><u>U.S. Department of Homeland Security</u></b>			
<b><i>Passed-Through Kentucky Emergency Management Agency</i></b>			
97.039	Hazard Mitigation Grant	Various	<u>33,745</u>
<b>Total U.S. Department of Homeland Security</b>			<u><u>33,745</u></u>
<b>Total Expenditures of Federal Awards</b>			<u><u>\$      672,490</u></u>

\*\*Tested as Major Program or Cluster

**HENRY COUNTY**  
**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**Fiscal Year Ended June 30, 2012**

Note 1 - The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Henry County, Kentucky and is presented on a modified cash basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations.

Note 2 - Of the federal expenditures presented in the accompanying Schedule of Expenditures of Federal Awards, Henry County Fiscal Court provided federal awards to the following subrecipient:

<u>Program</u>	<u>CFDA Number</u>	<u>Subrecipient</u>	<u>Pass-Through Grant Amount</u>
Community Development Block Grants	14.228	Henry County Health Department	\$ 497,500
			<u>\$ 497,500</u>

**HENRY COUNTY**  
**BUDGETARY COMPARISON INFORMATION**  
**Other Information - Modified Cash Basis**

**For The Year Ended June 30, 2012**





**HENRY COUNTY**  
**BUDGETARY COMPARISON INFORMATION**  
**Other Information - Modified Cash Basis**

**For The Year Ended June 30, 2012**

	<b>GENERAL FUND</b>			
	<b>Budgeted Amounts</b>		<b>Actual Amounts, (Budgetary Basis)</b>	<b>Variance with Final Budget Positive (Negative)</b>
	<b>Original</b>	<b>Final</b>		
<b>REVENUES</b>				
Taxes	\$ 1,040,001	\$ 1,040,001	\$ 1,184,810	\$ 144,809
Excess Fees	68,418	68,418	89,458	21,040
Licenses and Permits	240,200	240,200	241,806	1,606
Intergovernmental Revenue	546,591	704,903	603,478	(101,425)
Charges for Services	676,000	676,000	520,128	(155,872)
Miscellaneous	988,623	988,824	919,285	(69,539)
Interest	14,500	14,500	10,190	(4,310)
Total Revenues	3,574,333	3,732,846	3,569,155	(163,691)
<b>EXPENDITURES</b>				
General Government	1,824,827	1,793,606	1,471,733	321,873
Protection to Persons and Property	702,501	762,713	647,832	114,881
General Health and Sanitation	465,100	636,293	608,526	27,767
Social Services	27,000	35,863	29,654	6,209
Recreation and Culture	117,250	122,786	106,762	16,024
Debt Service	95,000	95,000	58,282	36,718
Capital Projects	63,500	63,500	90,943	(27,443)
Administration	1,034,500	943,206	832,747	110,459
Total Expenditures	4,329,678	4,452,967	3,846,479	606,488
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(755,345)	(720,121)	(277,324)	442,797
<b>OTHER FINANCING SOURCES (USES)</b>				
Adjustment to Prior Year Surplus	6,013	6,013		(6,013)
Transfers Out	(489,708)	(489,708)	(631,425)	(141,717)
Transfers In	179,600	179,600	379,600	200,000
Governmental Leasing Act Receipts	28,500	28,500		(28,500)
	(275,595)	(275,595)	(251,825)	23,770
Net Changes in Fund Balance	(1,030,940)	(995,716)	(529,149)	466,567
Fund Balance - Beginning	1,030,940	1,030,940	2,425,140	1,394,200
Fund Balance - Ending	\$ 0	\$ 35,224	\$ 1,895,991	\$ 1,860,767

**HENRY COUNTY**  
**BUDGETARY COMPARISON INFORMATION**  
**Other Information - Modified Cash Basis**  
**For The Year Ended June 30, 2012**  
**(Continued)**

	<b>ROAD FUND</b>			
	<b>Budgeted Amounts</b>		<b>Actual Amounts, (Budgetary Basis)</b>	<b>Variance with Final Budget Positive (Negative)</b>
	<b>Original</b>	<b>Final</b>		
<b>REVENUES</b>				
Intergovernmental Revenue	\$ 1,710,608	\$ 1,759,060	\$ 1,629,715	\$ (129,345)
Miscellaneous	1,000	1,000	6,909	5,909
Interest	14,500	14,500	9,321	(5,179)
Total Revenues	1,726,108	1,774,560	1,645,945	(128,615)
<b>EXPENDITURES</b>				
Roads	1,544,877	1,556,569	1,445,495	111,074
Administration	214,000	202,308	178,574	23,734
Total Expenditures	1,758,877	1,758,877	1,624,069	134,808
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(32,769)	15,683	21,876	6,193
<b>OTHER FINANCING SOURCES (USES)</b>				
Adjustment to Prior Year Surplus	99	99		(99)
Transfers Out	(179,600)	(179,600)	(179,600)	
	(179,501)	(179,501)	(179,600)	(99)
Net Changes in Fund Balance	(212,270)	(163,818)	(157,724)	6,094
Fund Balance - Beginning	212,270	212,270	1,563,020	1,350,750
Fund Balance - Ending	\$ 0	\$ 48,452	\$ 1,405,296	\$ 1,356,844

**HENRY COUNTY**  
**NOTES TO OTHER INFORMATION**

**June 30, 2012**

**Note 1. Budgetary Information**

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

**HENRY COUNTY**  
**NOTES TO OTHER INFORMATION**  
**June 30, 2012**  
**(Continued)**

**Note 2. Reconciliation of the General Fund**

Beginning Fund Balance-Budgetary Basis	\$ 2,425,140
Jail Fund-Beginning Balance-GASB 54	2,300
LGEA Fund-Beginning Balance-GASB 54	41,995
Federal Grant Fund-Beginning Balance-GASB 54	16,638
Solid Waste Fund-Beginning Balance-GASB 54	41,414
Fair Board Fund-Beginning Balance-GASB 54	3,185
	<hr/>
Beginning Fund Balance-Modified Cash Basis	<u>2,530,672</u>
Total Revenues-Budgetary Basis	3,569,155
Jail Fund-Revenues-GASB 54	117,524
LGEA Fund-Revenues-GASB 54	60,163
Federal Grant Fund-Revenues-GASB 54	2,113
Solid Waste Fund-Revenues-GASB 54	29,678
Fair Board Fund-Revenues-GASB 54	11,262
	<hr/>
Total Revenues-Modified Cash Basis	<u>3,789,895</u>
Total Expenditures-Budgetary Basis	3,846,479
Jail Fund-Expenditures-GASB 54	470,250
LGEA Fund-Expenditures-GASB 54	56,242
Federal Grant Fund-Expenditures-GASB 54	13,553
Solid Waste Fund-Expenditures-GASB 54	26,152
Fair Board Fund-Expenditures-GASB 54	56,461
	<hr/>
Total Expenditures-Modified Cash Basis	<u>4,469,137</u>
Ending Fund Balance-Budgetary Basis	1,895,991
Jail Fund-Ending Balance-GASB 54	9,574
LGEA Fund-Ending Balance-GASB 54	45,916
Federal Grant Fund-Ending Balance-GASB 54	5,198
Solid Waste Fund-Ending Balance-GASB 54	44,940
Fair Board Fund-Ending Balance-GASB 54	6,911
	<hr/>
Ending Fund Balance-Modified Cash Basis	<u>\$ 2,008,530</u>

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND  
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL  
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**





**ADAM H. EDELEN**  
**AUDITOR OF PUBLIC ACCOUNTS**

The Honorable John Logan Brent, Henry County Judge/Executive  
Members of the Henry County Fiscal Court

**Report On Internal Control Over Financial Reporting And  
On Compliance And Other Matters Based On An Audit Of Financial  
Statements Performed In Accordance With Government Auditing Standards**

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Henry County, Kentucky, as of and for the year ended June 30, 2012, which collectively comprise the County's basic financial statements, as listed in the table of contents and have issued our report thereon dated March 21, 2013. Henry County presents its financial statements on the modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

Management of the Henry County Fiscal Court is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Henry County Fiscal Court's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Henry County Fiscal Court's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Henry County Fiscal Court's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs as items 2012-01 and 2012-02 that we consider to be significant deficiencies in internal control over financial reporting. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.



Report On Internal Control Over Financial Reporting  
And On Compliance And Other Matters Based On An Audit Of Financial  
Statements Performed In Accordance With Government Auditing Standards  
(Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Henry County's financial statements as of and for the year ended June 30, 2012, are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

The Henry County Judge/Executive's responses to the findings identified in our audit are included in the accompanying schedule of findings and questioned costs. We did not audit the County Judge/Executive's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, others within the entity, the Department for Local Government, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Adam H. Edelen', with a long horizontal flourish extending to the right.

Adam H. Edelen  
Auditor of Public Accounts

March 21, 2013



**REPORT ON COMPLIANCE WITH REQUIREMENTS  
THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON  
INTERNALCONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**





**ADAM H. EDELEN**  
**AUDITOR OF PUBLIC ACCOUNTS**

The Honorable John Logan Brent, Henry County Judge/Executive  
Members of the Henry County Fiscal Court

**Report On Compliance With Requirements  
That Could Have A Direct And Material Effect On Each Major Program  
And On Internal Control Over Compliance In Accordance With OMB Circular A-133**

We have audited the compliance of Henry County, Kentucky, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012. Henry County's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Henry County's management. Our responsibility is to express an opinion on Henry County's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Henry County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Henry County's compliance with those requirements.

In our opinion, Henry County complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012.

**Internal Control Over Compliance**

The management of Henry County is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Henry County's internal control over compliance with requirements that could have a direct and material effect on a major federal program as a basis for designing our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Henry County's internal control over compliance.



Report On Compliance With Requirements  
That Could Have A Direct And Material Effect On Each Major Program  
And On Internal Control Over Compliance In Accordance With OMB Circular A-133  
(Continued)

Internal Control Over Compliance (Continued)

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, others within the entity, the Department for Local Government, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Adam H. Edelen', written in a cursive style.

Adam H. Edelen  
Auditor of Public Accounts

March 21, 2013

**HENRY COUNTY**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**For The Year Ended June 30, 2012**



**HENRY COUNTY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**Fiscal Year Ended June 30, 2012**

**A. SUMMARY OF AUDIT RESULTS**

1. The auditor's report expresses unqualified opinions on the governmental activities, each major fund, and the aggregate remaining fund information of Henry County.
2. There are two significant deficiencies relating to the audit of the financial statements reported in the Independent Auditor's Report.
3. No instances of noncompliance material to the financial statements of Henry County were disclosed during the audit.
4. No significant deficiencies relating to the audit of the major federal awards programs are reported in the Independent Auditor's Report.
5. The auditor's report on compliance for the audit of the major federal awards programs for Henry County expresses an unqualified opinion.
6. There are no findings relative to the major federal awards programs for Henry County reported in Part C of this schedule.
7. The program tested as a major program was: Community Development Block Grants (CFDA # 14.228).
8. The threshold for distinguishing Type A and B programs was \$300,000.
9. Henry County was not determined to be a low-risk auditee.

**B. FINDINGS - FINANCIAL STATEMENT AUDIT**

**INTERNAL CONTROL - SIGNIFICANT DEFICIENCIES**

**2012-01    The County Should Improve Controls Over Capital Assets**

During our review of controls over accounting for capital assets, we noted that the county does not perform capital asset inventory counts. In testing additions and deletions noted, we discovered the 2001 case backhoe was not removed from the insurance list when it was traded in for a new case backhoe.

We also noted the county is not maintaining capital assets records to include historical cost, salvage values, and depreciation, as applicable, for vehicles, equipment, buildings, infrastructure, construction in progress, etc.

When capital asset records are not maintained adequately and consistently, including being inventoried regularly, this significantly increases the risk that the county's assets are reported incorrectly due to errors or due to theft and that assets may be improperly insured. Governmental Accounting Standards Board Statement #34 requires that all capital assets be accounted for consistently for all asset types by a government entity.

We recommend the following:

- the county perform a comprehensive inventory count (including Sheriff and Clerk's capital assets) to ensure completeness of the current asset list and then establish and implement a policy for performing regular asset counts on at least an annual basis.
- the county develop and implement policies to ensure that all assets added to the list are insured, and those removed from the list are removed from insurance coverage in a timely manner, and
- the county develop capital assets schedules to maintain on an ongoing basis to track all assets, including vehicles, equipment, buildings, infrastructure and construction in progress, to include historical costs, salvage values, number of years owned, and depreciation as applicable.

**HENRY COUNTY**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**Fiscal Year Ended June 30, 2012**  
**(Continued)**

**B. FINDINGS - FINANCIAL STATEMENT AUDIT (CONTINUED)**

**INTERNAL CONTROL – SIGNIFICANT DEFICIENCIES (CONTINUED)**

**2012-01    The County Should Improve Controls Over Capital Assets (Continued)**

*County Judge/Executive Logan's Response: County has done inventory counts. This is being done verbally but not documented by department heads and the Deputy Judge/Executive. The county will document the inventory county by each department head's signature and date on an annual basis.*

**2012-02    The County Has A Lack Of Segregation Of Duties Related To Receipts And Payroll**

We noted during the review of internal controls related to receipts, that there is a lack of segregation of duties. We noted that the same person collects receipts, creates the deposit ticket, takes the deposit to the bank, records the receipts in the ledger and reconciles the bank account. There is no independent review done over these procedures.

In reviewing controls over payroll, we determined there is a lack of segregation of duties related to payroll. We noted that the same employee enters payroll data into the payroll system, reviews it and compares it against timesheets, prints checks, requests funds for payroll from the operating account, signs the payroll checks, and reconciles the payroll bank account. All of these procedures are done without an independent review.

When controls procedures are performed by the same employee and no compensating controls are in place, the risk for material misstatement significantly increases due to error or fraud that could occur without being detected.

We recommend the County separate the control functions related to receipts, or implement procedures to begin having these steps reviewed for accuracy. The review should be documented by initials of the reviewer on all documents reviewed. We also recommend the County either separate the functions related to payroll or begin implementing procedures for a review of each step with the reviewer initialing each document reviewed.

*County Judge/Executive Logan's Response: The Treasurer collects and records receipts and creates deposit tickets. The Judge/Executive or Deputy Judge/Executive take the deposit to the bank. Other comments taken under consideration.*



**CERTIFICATION OF COMPLIANCE -  
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM**

**HENRY COUNTY FISCAL COURT**

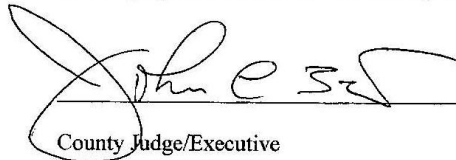
**For The Fiscal Year Ended  
June 30, 2012**



CERTIFICATION OF COMPLIANCE  
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM  
HENRY COUNTY FISCAL COURT

For The Fiscal Year Ended June 30, 2012

The Henry County Fiscal Court hereby certifies that assistance received from the Local Government Economic Assistance Program was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.

A handwritten signature in black ink, appearing to read "John C. Smith", written over a horizontal line.

County Judge/Executive

A handwritten signature in black ink, appearing to read "Lori S. Parvish", written over a horizontal line.

County Treasurer

